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Background

The Personal Property Tax Relief Act of 1998 (PPTRA) established a statewide program by which the Commonwealth of Virginia was to provide relief for owners of personal-use motor vehicles from city, county and town personal property tax (PPT) on those vehicles. The 1998 legislation is codified at Va. Code § 58.1-3523 *et seq.*

The 1998 act envisioned a five-year phase-in of relief, expressed as a percentage of the tax bill relating to the first $20,000 in value of each qualifying vehicle. Relief in 1998 was set at 12.5 percent, and was provided by means of a refund check to the owner; relief in subsequent years was required to be shown on the face of local personal property tax bills as an offset to the total amount billed. The relief was to be phased in, reaching 100 percent in 2002. A series of fiscal triggers tied to state revenue growth would freeze relief at the preceding year's rate. Relief would be based on rates that were in effect at the time of the act's passage, effectively erecting a strong political disincentive to localities to raise rates, since 100 percent of the cost of a rate increase would be borne by local taxpayers.

PPTRA program costs soared beyond original estimates as new car values increased substantially faster than inflation, "holding" periods for vehicles shortened as a result of unprecedented dealer incentives, vehicle ownership per household grew and more people moved into the state. It soon became clear that PPTRA when fully implemented would cost at least double what had been projected. The reimbursement rate was set at 70 percent in the 2001 budget, and remained frozen at this level for the next three years as the state slashed spending in the face of stagnant and even plummeting revenues.

When a House-Senate standoff ended the 2004 regular session of the General Assembly without a budget, legislators seeking a compromise fastened on the possibility of capping PPTRA relief at $950 million as part of a larger package of revenue enhancements **and** spending controls. The cap took the form of Senate Bill 5005 (2004 Special Session I) (***Appendix A***), which was passed hastily in conjunction with a compromise budget that included increases in the state sales and recordation taxes, and other revenue enhancements.

SB 5005's provisions engendered immediate concern on the part of local governments. Accompanying the cap was a shift to reimbursement on the basis of the state fiscal year (which begins on July 1), effectively gaining a one-time $229 million windfall for state budget-writers at the expense of delaying reimbursement for about three dozen localities that collect some or all of their personal property tax on vehicles in the first six months of the year (spring billers). Also troubling was the structure of the proposed cap, which effectively would have required localities to set a special "reduced rate" for qualifying vehicles in the first year of implementation (tax year 2006), but accommodate growth in the size and value of the vehicle fleet by raising the "reduced" rate every year thereafter. Further logistical problems were created by the absence in the bill of any clear rules to guide the transition from the old PPTRA program – in essence, a vehicle-based entitlement program – to the new program, which operates effectively as a fixed block grant to localities, that must be spent on providing personal property tax relief to owners of qualifying vehicles.

These problems were addressed during the second half of 2004 when Secretary of Finance John M. Bennett convened a working group at the request of local government representatives. The working group produced two distinct products that ameliorated the difficulties associated with SB 5005: (a) a set of budget language amendments, incorporated into the governor's 2005 budget bill and passed by the General Assembly; and (b) a reimbursement schedule, prepared by the Secretary of Finance and released on Jan. 1, 2005, which will govern the timing of state payments.

Implementing the changes to PPTRA effected by the 2004 legislation and 2005 budget amendments will require the making of policy determinations, and the adoption of ordinances or resolutions carrying out those determinations, by the governing body of each county, city and town. This publication provides a suggested framework for making these decisions and a model ordinance to assist localities in this process.

The 'new' PPTRA: How it works

In its original form, PPTRA in essence was a *vehicle-based entitlement program.* The state was obligated to provide annual tax relief to owners of all personal use vehicles, with the relief computed on the first $20,000 of assessed vehicle value. Beginning in 1999, the relief would be shown as offsetting the tax due on each taxpayer's PPT bill; therefore, the relief would flow through the taxing locality (as opposed to being sent directly to the taxpayer as was the case in the first year of the program). As the number and value of vehicles comprising the "fleet" in each county, city and town grew, so did the state's annual obligation.

The changes to PPTRA made by SB 5005 mark an end to this vehicle-based entitlement program. SB 5005 established what amounts to a *fixed, annual block grant* to localities, the proceeds of which must be used to provide tax relief to the owners of qualifying vehicles. The state's obligation is capped and made certain; localities are provided greater flexibility in determining how relief is to be distributed. As a necessary consequence of this approach, the proportion of individuals' PPT bills that is satisfied by the state relief will shrink over time, since the relief "pot" is fixed, but the value of the statewide fleet eligible for relief grows because of population growth, increasing car ownership and steady increases in vehicle value.

The new tax relief act is a product of two distinct legislative actions: (a) the original SB 5005; and (b) 2005 amendments to the Appropriations Act (the state budget) that modify and in some cases supercede the provisions of the 2004 legislation. The 2005 budget amendments — in effect — provide important ways to implement the new PPTRA that were not permitted under the original 2004 legislation. This publication and the model ordinance that follows set out these approaches as alternatives; the following section summarizes the policy choices facing localities as they seek to implement the new PPTRA in 2006.

Determining a locality's slice of the PPTRA pie. The central purpose of SB 5005 was to cut off growth in the state expenditure for personal property tax relief. The legislation did so by establishing a fixed annual state expenditure for relief – $950 million, the amount estimated to be necessary to produce relief at a 70 percent reimbursement rate under the old PPTRA in tax year 2006 – and a formula for "slicing" that fixed pie for distribution to each county, city and town imposing the tax.

The annual distribution to localities does not change from year to year; once established for tax year 2006, in the manner described below, the amount will be constant in future tax years. There is no provision for adjusting this relief amount upward. In effect, relief will be frozen at the 2006 amount in perpetuity, absent further legislative change.

Localities will be advised of their fixed relief amount in early 2006. As a result of the 2005 budget amendments, the amount of that relief will be calculated in the following manner.

- The locality's PPTRA reimbursements from the state for tax year ***2004***[1] are totaled through Dec. 31, ***2005*** (thus ensuring at least 12, and as many as 20, months of collection activity with respect to delinquent accounts).

  EXAMPLE: *Smallville sends PPT bills totaling $31 million to owners of qualifying vehicles for tax year 2004. As of Dec. 31, 2005, Smallville has collected $30.6 million (a collection rate of 98.7 percent). These collections yield $21,421,048 in state relief computed at 70 percent.*

- The locality's reimbursements are expressed as a percentage of all PPTRA reimbursements made throughout the state for tax year 2004.

  EXAMPLE: *Smallville's PPTRA reimbursements for tax year 2004 total $21,421,048, and all state reimbursements for tax year 2004 total $925 million. Smallville's distribution percentage would be 2.315789 percent.*

- The locality's relief for tax year 2006 and all subsequent years is computed by applying this distribution percentage to the fixed statewide amount of $950 million.

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[1] Note that the use of tax year 2004 as the "base year" for the calculation of relief reflects a change made by the 2005 budget amendments. The base year set out in SB 5005 was 2005; the PPTRA Working Group recommended, and the 2005 budget amendments effected, a change of base year to 2004 to permit the allocation to be based on collections for a completed billing cycle and not less than 12 months' delinquent collection activity, which would have been logistically impossible had the base year remained 2005.

EXAMPLE: Smallville's fixed relief amount for tax year 2006 and every subsequent year would be 2.315789 percent of $950 million, or $22 million.

Methods for apportioning relief to individual taxpayers. The old PPTRA provided relief on a fixed percentage basis[2] for each vehicle. The new PPTRA effectively provides each locality the latitude to determine how to distribute relief among its taxpayers, requiring only that the block grant provided under the new PPTRA be used to provide relief to owners of qualifying personal-use vehicles. There are two different methods by which this relief can be calculated for each vehicle and shown on the tax bill.

(a) Use of the 'reduced rate' method. SB 5005 as originally enacted required each locality to set its general PPT rate, determine what the (hypothetical) tax yield from taxing the fleet of qualifying vehicles at the general rate would be, then distribute the state-provided relief by setting one ***or more*** reduced rates applicable to qualifying vehicles, such that the difference between the general rate and the reduced rate would approximately equate to the amount of state relief.

Locality example: *Smallville, adopting the "reduced rate" method, sets its general PPT rate at $4 per $100 of assessed value for tax year 2006. With a total qualifying vehicle fleet value projected to reach $800[3] million in 2006, Smallville's general rate would yield total revenue of $32 million. Smallville's state relief amount is determined to be $22 million in accordance with the procedure described in the preceding section. Smallville thus must set a reduced rate that will yield the difference between these two – that is, the "local" share of $10 million. Smallville's reduced rate is set at $1.25 (the rate necessary to produce $10 million from the qualifying fleet value of $800 million).*

Under this approach, PPT bills issued by the locality would compute tax on the first $20,000 of vehicle value at the reduced rate, and contain a statement explaining that the reduced rate was made possible by the state PPTRA program.

Taxpayer examples: *Affluent Alex of Smallville owns a luxury SUV assessed for tax purposes at $25,000. His bill from Smallville will show taxation on the first $20,000 computed at the reduced rate of $1.25 (thus yielding tax of $250), and taxation of the remaining $5,000 in "excess" value computed at the general rate of $4 (thus yielding additional tax of $200). Alex's total PPT bill for this vehicle is thus $450.*[4]

Sensible Sarah owns a practical sedan assessed at $10,000. Her bill is computed entirely at the reduced rate, yielding a balance due of $125.

Parsimonious Paul owns a 15-year-old pickup assessed at $600. His bill, also computed entirely at the reduced rate, comes to $7.50.

Each taxpayer's bill is required to indicate that the reduced rate of $1.25 was made possible by relief provided under the state PPTRA program.

As vehicle fleet value grows from year to year, a locality using the "reduced rates" approach must adjust its reduced rate on an annual basis. Except in rare circumstances, the annual adjustment will take the form of increasing the reduced rate in the face of growing fleet value and a fixed state reimbursement sum.

(b) Use of the 'specific relief' method. The 2005 budget amendments, responding to concerns regarding the complexity of the reduced rates method and its effective requirement that localities raise the PPT "reduced rate" every year, provide an alternative method for computing tax relief and preparing the PPT bill. Instead of computing and displaying "reduced rates" on the tax bill, localities may apply the available state relief on a per-vehicle basis and show the specific dollar amount of the relief for each vehicle on the face of the tax bill, together with a

[2] At the time of the passage of SB 5005, the percentage basis stood at 70 percent of the tax amount attributable for the first $20,000 of value, with one exception; vehicles valued at $1,000 and under were reimbursed at the rate of 100 percent — thus effectively exempting these low-value vehicles from PPT taxation altogether.

[3] Note that the value of the *qualifying* fleet consists of the combined value of (a) vehicles assessed at less than $20,000, and (b) the first $20,000 in value of vehicles valued at more than $20,000. Vehicles valued at more than $20,000 in effect each have a qualifying component (the first $20,000 in value) and a nonqualifying component (the assessed value in excess of $20,000).

[4] Under this approach, note that the reimbursement percentages that have defined the "old" PPTRA program will disappear altogether from the tax bill. While Affluent Alex's relief in this example amounts to $550 – the difference between the $250 he was charged for the first $20,000 in value on his vehicle, and the $800 he would have been charged but for the PPTRA program – the tax bill is not required to reflect this tax savings as a percentage of his bill arising from the qualifying assessment (here, 68.75 percent), but rather simply as a rate reduction.

statement indicating that the source of the relief is the state PPTRA program.

Use of the "specific relief" method has substantial advantages. In the first place, programming changes necessary to transition from the "old" to the "new" PPTRA programs can be simplified greatly by using the specific relief approach. As a practical matter, the locality using this approach will calculate a percentage relief to apply to each vehicle. Because the existing (old) PPTRA operates in this manner, it typically will be a simple matter to change the percentage relief within existing software and programs. Second, from the point of view of public understanding, the specific relief approach also provides anticipated advantages, inasmuch as taxpayers are accustomed to seeing PPTRA relief displayed in this manner and will see a true "price tag" for the relief they receive, rather than merely a "unit price" difference expressed as a reduced rate. Finally, the specific relief approach eliminates the need formally to increase the "reduced rate" each year in order to accommodate fleet value growth over time.

> ***Locality example:*** *Smallville chooses the specific relief method to reflect PPTRA relief on its tax bills. The total levy on its $800 million fleet of qualifying vehicles, computed at the general rate of $4 before taking PPTRA into account, would be $32 million. State PPTRA relief is set at $22 million. The state relief is thus sufficient to provide 68.75 percent relief (that is, $22 million divided by $32 million) on the first $20,000 of value for each qualifying vehicle.*
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> ***Taxpayer examples:*** *Affluent Alex's $25,000 SUV is taxed as follows. Total tax due with respect to the vehicle before any relief is applied is $1,000. State relief will be applied to satisfy 68.75 percent of the bill on first $20,000 of value (that is, $800 of the tax bill). Alex's bill thus will show a PPTRA relief credit of $550 (that is, 68.75 percent of $800), leaving a balance due from Alex of $450.*
>
> *Sensible Sarah's $10,000 practical sedan has a total tax due, before credits, of $400. The state relief provides a 68.75 percent credit, leaving Sarah a balance due of $125.*
>
> *Parsimonious Paul's $600 aging pickup has a total tax due, before credits, of $24. The state relief provides a 68.75 percent credit, leaving Paul $7.50 to pay.*
>
> *Each taxpayer's bill will indicate that the source of the credit received is the Commonwealth's PPTRA program.*

Vehicles valued at and under $1,000. Under the old PPTRA, vehicles valued at or under $1,000 were effectively exempted from taxation by setting the state reimbursement rate at 100 percent for such vehicles.[5] The new PPTRA, however, makes no special provision for low-value vehicles. As a result, unless the locality adopts special provisions, low-value vehicles will return to the active tax rolls beginning in tax year 2006.

There are multiple reasons for localities to consider making special provisions for low-value vehicles. In the first place, taxation of such vehicles entails substantial administrative costs with little revenue to show for the administrative effort.

> ***Taxpayer example:*** *The taxes generated with respect to Parsimonious Paul's aging pickup will be $24. Application of the state relief will reduce the amount due from Paul by 68.75 percent, to $7.50, a sum that is likely to be less than the cost of generating and mailing the bill and processing the payment, let alone collecting it if delinquent.*[6]

Second, reinstituting taxation of low-value vehicles will dramatically increase the number of active accounts localities must collect, and subject hundreds of thousands of taxpayers who have not paid a bill since 1999 to taxation, likely yielding increases in administrative costs and taxpayer displeasure.

There are two general ways in which the special problem of low-value vehicles can be addressed.

(a) Adopt special relief rules for low-value vehicles. The new PPTRA does not require a "one size fits all" approach to taxation of qualifying vehicles. Regardless of whether a locality adopts the reduced rate approach or the specific relief approach, it is free to adopt special rules for low-value vehicles.

> ***Example:*** *Smallville determines to continue full exemption of vehicles valued at and under $1,000.*

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[5] The rationale for making this distinction in the original PPTRA legislation in 1998 was that removing these vehicles from the program would substantially simplify administration and would eliminate the need for localities to spend disproportionate resources collecting small balances due from taxpayers in order to entitle them to seek reimbursement for the "state share" attributable to those vehicles.

[6] The result is the same even if Smallville has adopted the "reduced rate" method. Applying the reduced rate of $1.25 per $100 to Paul's $600 vehicle, the tax due would be $7.50.

Its ordinance provides specifically for exemption of such vehicles. Paul either receives no bill at all, or a bill reflecting a zero balance.[7]

(b) Use general law to write off bills on low-value vehicles. A second means of dealing with low-value vehicles is provided by general law, which permits the treasurer to choose not to issue a bill for any tax balance that is $20 or less (Va. Code § 58.1-3912 (A)). As a practical matter, this provision, if invoked by the treasurer, would provide a means of eliminating bills with respect to the overwhelming majority of low-value vehicles.[8] Even before PPTRA relief is calculated, PPT bills for a vehicle valued at $1,000 would only amount to $50 in a locality with a $5 per $100 rate. As long as PPTRA relief remains at 60 percent or more, even the $1,000 vehicle in a locality with a $5 rate would generate a balance due of $20 or less, and thus be eligible for full write-off by the treasurer.

Example: *Smallville determines not to adopt any special provisions for low-value vehicles, but receives the assurance of its treasurer that she will write off PPT bills with balances due of $20 and less. Parsimonious Paul's $600 vehicle generates a balance payable of $7.50. The Smallville treasurer sends Paul no bill and writes off the $7.50 balance pursuant to Code § 58.1-3912 (A).*

Local flexibility in determining distribution of relief. The new PPTRA provides localities virtually unlimited flexibility in determining the precise formula for distributing relief to owners of qualifying vehicles. The only statutory requirement is that relief be provided to owners of vehicles valued at $20,000 and under; there is no impediment to shaping the overall distribution of relief to accommodate local circumstances. Among the many options localities could consider are:

- ***Variable relief within 'value bands.'*** Localities may provide relief on a progressive basis – for instance, providing 80 percent for value between $1,000 and $7,500, 60 percent relief for value between $7,500 and $15,000, and 40 percent relief for value between $15,000 and $20,000. (*NOTE:* Actual percentages will vary each year and will be determined by the amount of relief available and the projected value of the fleet within each of these "value bands" for the year in question.)

Locality example: *Smallville makes a policy decision to adopt three "value bands" in order to direct greater percentage relief to owners of low- to average-value vehicles. Its ordinance requires the annual setting of rates that have the following relationship to one another:*

(1) Relief in the "low" band, with respect to vehicle value up to and including $7,500, is to be provided at a rate that is approximately 20 percent higher than that applied to the "middle" band.

(2) Relief in the "middle" band, with respect to vehicle value in excess of $7,500, but less than $15,000, is to be provided at a rate that is approximately 20 percent higher than that applied to the "high" band.

For tax year 2006, Smallville's projections of fleet value determine that its $22 million in state relief will support the following rates of relief: 80 percent in the "low" band, 60 percent in the "middle" band, and 40 percent in the "high" band.

Taxpayer examples: *Affluent Alex's $25,000 luxury SUV falls into all three bands and has excess value, as well. His tax bill (which totals $1,000 before PPTRA relief, $800 of which is attributable to the first $20,000 in value) is computed as follows: (1) $60 tax on the first $7,500 of value (that is, $300 in tax computed at the $4 rate, less 80 percent relief); plus (2) $120 in tax on the value between $7,501 and $15,000 (that is, $300 in tax less 60 percent relief); plus (3) $120 in tax on value between $15,001 and $20,000 (that is, $200 in tax less 40 percent relief); plus (4) $200 in tax on the value in excess of $20,000. Alex's total tax bill is $500 ($300 of which arises from the qualifying portion of its value); he is thus receiving relief at an effective rate of 62.5 percent on the qualifying portion of his vehicle value.*

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[7] There might be several reasons for sending a billing statement even if this vehicle has a zero balance – for instance, if the owner has multiple vehicles and the locality uses a combined billing statement, or if the PPT billing statement is also used to collect the local vehicle registration (decal) fee.

[8] In fact, in the vast majority of jurisdictions, this approach would eliminate taxation of all vehicles valued at $1,000 or less for the foreseeable future. As the example in the text illustrates, the only situation in which the relief might not reach every vehicle valued at $1,000 or less would be in a locality with a very high PPT rate and an effective PPTRA relief rate that has sunk rapidly because of high growth in the fleet value in the out years.

Sensible Sarah's $10,000 practical sedan falls into the first two "value bands." Her tax bill (which is $400 before PPTRA relief) is computed as follows: (1) $60 in tax on the first $7,500 of value (that is, $300 in tax at the $4 rate, less 80 percent relief); plus (2) $40 in tax on the value between $7,501 and $10,000 (that is, $100 in tax, less 60 percent relief). Sarah's total tax bill is thus $100, and she is receiving relief at an effective rate of 75 percent.

Parsimonious Paul's $600 aging pickup falls exclusively into the low "value band." His tax bill (which totals $24 before PPTRA relief) is $4.80 (that is, total tax of $24 computed at the $4 rate, less 80 percent relief). He is receiving relief at an effective rate of 80 percent.

- ***Reducing the 'value ceiling.'*** Localities may provide a higher level of relief up to a value threshold that is less than the full $20,000 permitted under statute, thus providing relatively higher proportions of relief for vehicles of modest value.[9]

Locality example: *Smallville determines to concentrate relief for vehicle values at and below the city average vehicle value of $12,500. Distributing relief in this manner permits Smallville to provide 85 percent relief for the first $12,500 of value.*

Taxpayer examples: *Affluent Alex's $25,000 luxury SUV pays only $75 in taxes on the first $12,500 in value, but pays $300 in taxes (that is, $7,500 times the general rate of $4 per $100, with no relief) on the value between $12,501 and $20,000, plus another $200 for the excess value of $5,000, for a total tax bill of $575. He is receiving relief at the effective rate of 53.125 percent on the first $20,000 in vehicle value.*

Sensible Sarah's $10,000 practical sedan receives a bill, net of credits, of $60 (that is, $400 tax, reduced by an 85 percent credit). She is receiving relief at the effective rate of 85 percent of vehicle value.

Parsimonious Paul's $600 aging pickup generates a bill, net of credits, of $3.60 ($24 in total taxes, less 85 percent relief), and can be written off by the treasurer.

These methods have some attraction for localities that wish to direct tax relief toward average- to lower-income residents – that is, to the extent that vehicle value correlates with the ability to pay. The principal drawback of using a multiple-bands approach is that the task of projecting how far the state relief will go – and thus setting the prospective rates for relief – becomes somewhat more complicated when multiple rates are used, for planners must project not only the total value of the fleet, but the distribution of that value among each band, likely increasing the potential for forecasting error.

Perfect forecasting is not required. Setting PPTRA reduced rates or relief percentages under the new PPTRA is a matter of forecasting and estimation. SB 5005 contemplated that some divergence between forecast and actual use of the state relief would be inevitable. The legislation (as amended by the 2005 budget language) requires only that the reduced rate, or relief percentage, as the case may be, "approximately" use the fixed state relief provided. There is no specific requirement for "carrying forward" unused sums or for "recapturing" any shortfall experienced by the locality that in hindsight set its rate or relief at too generous a level.

In order to assure taxpayers that state relief dollars will be spent solely for tax relief, localities may wish to consider carrying forward any unused amounts into a subsequent year and using them to augment the fixed amount of state relief in the subsequent period.

[9] Beware of the common misperception that reducing the ceiling would force some vehicle owners presently eligible for relief out of the program. As the example of Affluent Alex demonstrates, every owner of a qualifying vehicle will benefit even under a reduced ceiling.

Policy choices for localities

There are several policy choices each locality that imposes the personal property tax on vehicles must make as it implements the new PPTRA. The principal choices can be grouped into the following checklist:

- ***Method of computing and reflecting relief.*** The locality must determine whether to use:
  - ❑ the "reduced rates" method, ***or***
  - ❑ the "specific relief" method.
- ***Method of allocating relief (rates).*** The locality must determine a basis for allocating relief among classes of taxpayers:
  - ❑ at a single rate, ***or***
  - ❑ at different rates, set out for specific "value bands," ***and***
  - ❑ across the board to the first $20,000 of vehicle value, ***or***
  - ❑ up to some lower ceiling of vehicle value.
- ***Treatment of low-value vehicles.*** The locality must determine whether to:
  - ❑ take special steps to exempt low-value vehicles, similar to current law; ***or***
  - ❑ take no special action, but achieve an understanding with the treasurer that small balances due (no more than $20) will not be billed and will be written off; ***or***
  - ❑ issue bills to and collect from all taxpayers, even if the amount owed is insignificant.[10]

Transitional challenges

The transition from the old PPTRA program, which remains in effect for tax year 2005, to the new program, which commences in tax year 2006, poses special challenges, particularly with respect to 2005 bills that become delinquent but are subsequently collected during 2006. SB 5005 was devoid of any particular transition provisions, and accordingly a central purpose of the 2005 budget amendments was to provide special rules to help effect the transition smoothly. In particular, those amendments answer several important questions:

- ***How long will the state pay reimbursements under the old PPTRA system?*** The state will continue to pay reimbursements for tax year 2005 bills presented for reimbursement after Jan. 1, 2006. Reimbursements under the old PPTRA program, however, will definitively end (a) on Sept. 1, 2006 *[April 1, 2007, for the City of Winchester]*, or (b) when state funding earmarked for 2005 reimbursements is exhausted, whichever is ***earlier.***[11]

- ***What may a locality do to make up the shortfall on a 2005 or earlier bill that is no longer eligible for state reimbursement?*** Taxpayers whose bills remain delinquent after eligibility for state reimbursement has ended can be "balance billed"– that is, issued a revised bill for the full amount of the original levy, without regard to any (former) entitlement to a state credit.[12]

- ***How likely is it that the state will have enough funds to carry the old program through the Sept. 1, 2006 cutoff date?*** The 2005 budget amendments provided a supplemental appropriation of $24 million specifically to address reimbursements with respect to delinquent bills that are paid and presented for reimbursement during the first eight months of 2006.[13] VML is committed to seek during the 2006 legislative session any additional funding that appears to be necessary to cover reimbursements up to Sept. 1, 2006.

[10] This may be a particularly attractive alternative for localities that are using the PPT bill mailing for another purpose, such as collecting the local vehicle registration (decal) fee.

[11] Chapter 951, 2005 Acts of Assembly, Items 503.B, 503.D [hereinafter cited as the "2005 Appropriations Act"]. The full text of Item 503 is set out as ***Appendix B.*** Special provisions are made with respect to the City of Winchester because it uses a unique "rolling" monthly due date tied to vehicle registration.

[12] 2005 Appropriations Act, Item 503.D.1 (all localities except City of Winchester), Item 503.D.2 (special provisions applicable to Winchester).

[13] 2005 Appropriations Act, Item 503.D.3.

Reimbursement schedule for state PPTRA relief

As the introduction described, perhaps the most disconcerting aspects of SB 5005 as originally enacted were its movement of PPTRA reimbursements from a calendar year to a state fiscal year basis, effectively creating a serious cash flow challenge for spring billing localities, and its general ambiguity regarding specific schedules for payment of the fixed state relief under the new PPTRA program. A central thrust of the efforts of the PPTRA working group was to address these concerns. The compromise achieved has the following principal features, embodied in Item 503 of the 2005 Appropriations Act (***Appendix B***) and the reimbursement schedule described in this section:

- Spring billing counties and cities will receive PPTRA payments from the state within the locality's financial reporting "availability period" (typically 45 or 60 days following June 30), based on historical collection patterns, thus ensuring that cash flow disruption will be minimized (although not eliminated) and the potential for balance sheet deficits removed.

- Definitive advice has been secured from the Auditor of Public Accounts, confirming that if the state pays the PPTRA reimbursement to a spring billing jurisdiction within its availability period, the revenues can and should be attributed to the fiscal year just ended.

- Non-spring billing localities will be paid reimbursements on schedules that, on average, provide slightly better overall cash flow than historical experience under the old program.

- The Secretary of Finance is provided special authority to pay spring-billing towns that account on a cash basis (and thus have no "availability period" to save them from balance sheet deficits) prior to July 1, so that the revenue will post to the proper fiscal year.[14]

- "Intent of the General Assembly" language is added to the Appropriations Act to express the commitment to continue paying spring billers on these terms.[15]

[14] 2005 Appropriations Act, Item 503.F.

[15] 2005 Appropriations Act, Item 503.G.

The final reimbursement schedule effecting these principles is contained in a Jan. 1, 2005 report from Secretary of Finance John Bennett, outlining the planned schedule for reimbursements under the new PPTRA program (***Appendix C***). The report establishes five distinct schedules for reimbursement:

- ***Spring billing counties and cities*** will receive the same proportion of their total PPTRA reimbursement as each received for tax year 2005 through June 30, 2005, with payment to be made on July 31.[16] The balance of spring billers' payments will be made in two further installments – 40 percent of the remaining balance on Aug. 15 (also within the availability period), and 60 percent on Nov. 15. In effect, while the first payment reflects a delay as compared to payments under the old PPTRA program, the August and November payments are accelerated by comparison to the original program. The expectation is that this acceleration will help to offset imputed investment earnings losses arising from the delay experienced with respect to the initial payment.

  Locality example: *Smallville, which collects PPT with a single June 5 due date, has total 2005 state PPTRA reimbursement of $20 million during 2005, with $18 million (that is, 90 percent) received by June 30, 2005. Smallville's slice of the state pie for 2006 and beyond is $21 million. Smallville would receive $18.9 million (that is, 90 percent of its PPTRA relief allocation) on July 31. It would receive a further $840,000 (that is, 40 percent of the remaining balance of $2.1 million) on Aug. 15, and the remaining balance of $1.26 million on Nov. 15.*

- ***Localities presently receiving more than $20 million in reimbursements*** (other than spring billers) will receive 50 percent of their fixed PPTRA relief on Aug. 15 and 45 percent on Nov. 15, with the balance of 5 percent paid out in equal installments on Feb. 15 and May 15. This schedule — under which these localities will receive 95 percent of their reimbursement

[16] Note that, for the purpose of making this calculation for July 31 distributions to spring billers, the "base year" is 2005. This calculation is not related to the computation of the locality's "slice" of the fixed, $950 million PPTRA "pie," which is (as earlier discussed) based on state reimbursements made with respect to tax year 2004 bills.

by Nov. 15 — reflects a more rapid payout than historical experience for these four localities, which have received an average of 89 percent of their reimbursement amounts during the July 1-Dec. 31 timeframe.

- ***Localities presently receiving less than $20 million in reimbursements*** (other than spring billers) will receive 5 percent of their reimbursements on Aug. 15 and 75 percent on Nov. 15, with the balance of 20 percent paid out on Feb. 15 and May 15. This schedule — under which these localities will receive 80 percent of their reimbursement by Nov. 15 — reflects a substantially more rapid payout than historical experience for these localities, which have received an average of 61 percent of their reimbursement amounts during the July 1-Dec. 31 timeframe.

- ***Towns*** (other than true spring billers) will be paid out in a single lump sum on Aug. 15.

- The handful of ***towns*** that are true spring billers[17] will be paid out in the spring on approximately the same schedule as they presently receive their reimbursements. In order to qualify for this treatment, the town must: (a) currently have, and have historically employed, a billing date between Jan. 1 and June 30 for ***current*** year taxes; (b) use the cash method of accounting; and (c) certify that it would face financial hardship in the absence of payment prior to July 1.

Model ordinance

The model ordinance that follows provides a guide for effecting the policy determinations discussed in the preceding sections. The model ordinance is designed to be enacted once in order to establish the overall framework for implementing the PPTRA changes; the locality would then implement the annual details by including them in its budget, or by separate ordinance or resolution specific to that year.

Other resources

The Department of Taxation, in conjunction with the Commissioners of the Revenue Association of Virginia and the Treasurers Association of Virginia, is developing several resources that will be of enormous assistance in the technical implementation of the PPTRA changes. Among these are an Excel™-based forecasting model to assist localities in making their annual projections of the percentage amount of relief that the fixed state grant will support, as well as explanatory materials and training opportunities for local officers. These materials should be available through your commissioner of the revenue and treasurer by June 1, 2005.

Questions and Comments

Questions and comments regarding this publication and model ordinance can be directed to Alan D. Albert, Special Counsel to VML, by E-mail at *alan.albert@leclairryan.com* or by telephone at (757) 441-8914.

[17] That is, they have a billing date between January 1 and June 30 for the current year. Many towns that have a billing date between January 1 and June 30 are actually collecting in arrears for the calendar year just ended; they are not considered spring billers.